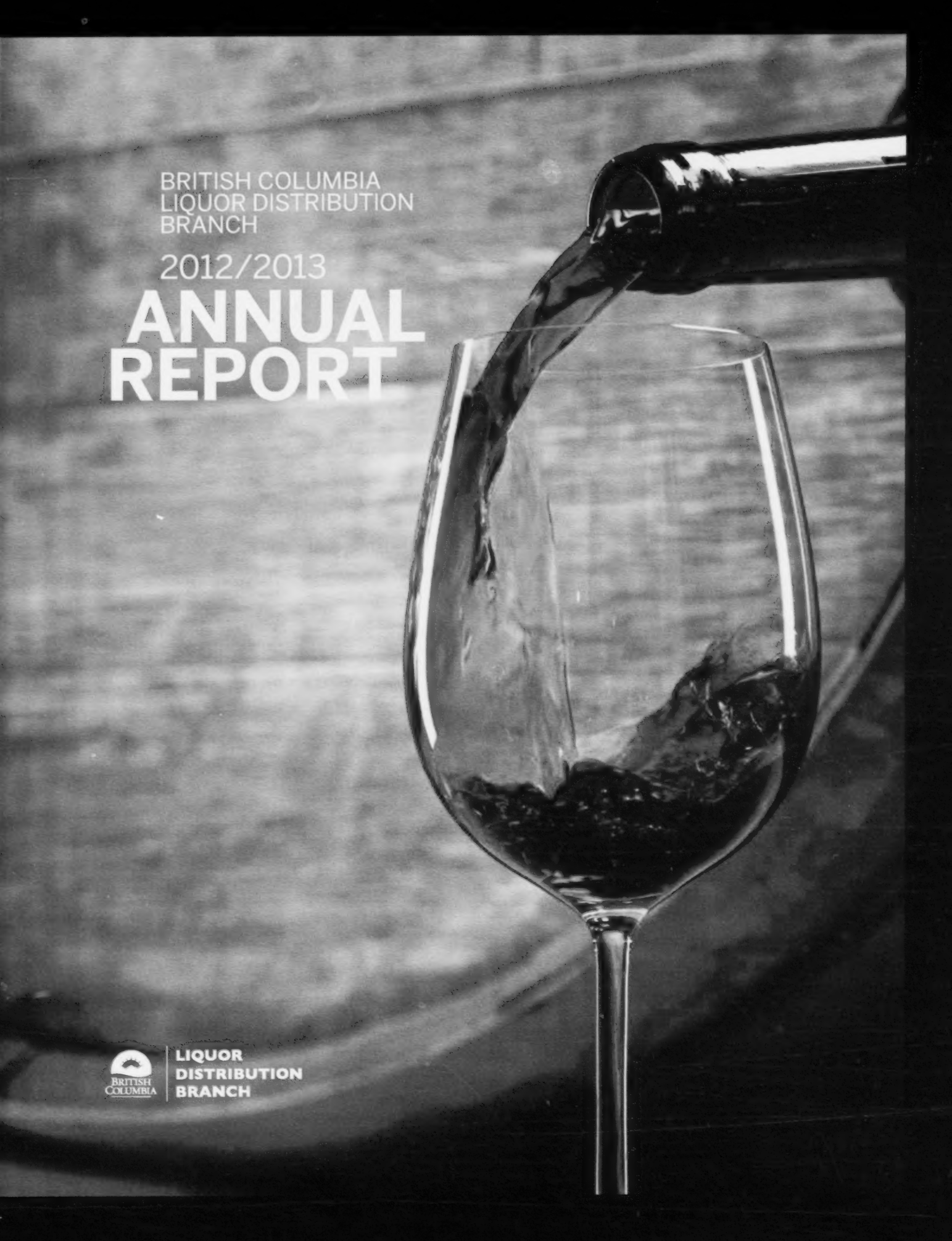
BRITISH COLUMBIA
LIQUOR DISTRIBUTION
BRANCH
2012/2013
ANNUAL
REPORT
BRITISH
COLUMBIA
LIQUOR
DISTRIBUTION
BRANCH

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GENERAL MANAGER'S MESSAGE TO THE MINISTER RESPONSIBLE

The Honourable Suzanne Anton, Attorney General and Minister of Justice

Fiscal 2012/13 for the Liquor Distribution Branch (LDB) was one marked by the departure of Jay Chambers, the General Manager for the past 15 years, and my arrival to lead the LDB going forward. On behalf of everyone at the LDB, I would like to acknowledge the steady and supportive leadership that Jay demonstrated during his tenure, and wish him well in his future endeavors.

Last year was better than expected for the beverage alcohol business in British Columbia. The LDB's sales in 2012/13 were $2.95 billion, resulting in a net income of $929.6 million. This represents a 2.1 and a 2.0 percent increase, respectively, over the previous year. Net income exceeded the budget target by 2.6 percent. When the provincial sales tax portion of the HST that was generated as a result of LDB sales activity is added, the net proceeds forwarded to the Province in 2012/13 was $1.02 billion – revenue that contributes significantly to providing the essential services like health care and education that British Columbians rely upon. LDB staff is very proud of this contribution made to British Columbians.

These results are encouraging and reflect the LDB's efforts last fiscal year to manage the costs of doing business during challenging economic times, and its focus on improving wholesale and retail customer service. Also contributing to the better than expected sales results was a change in consumer preference - namely, the decline in beer sales was accompanied by an increase in consumption of products in the higher-priced wine and refreshment beverage categories. Customers also demonstrated a willingness to increase their spending to purchase more premium products within the categories.

The LDB's exceptional product portfolio managers, and its status as one of the largest purchasers of beverage alcohol in the world, provide the Branch access to global product that is second to none. In 2012/13, the LDB offered its BC Liquor Stores customers over 1,100 new product listings from which to choose.

The LDB remained focussed on providing BC Liquor Stores' customers a retail environment that is inviting and modern by continually refreshing its stores. In the last year, the LDB relocated five stores to new locations that improved customer convenience and in-store retail presentation, while a further eight stores underwent major remodelling and an additional three stores were significantly renovated.

On the wholesale side of the LDB's business, a survey conducted last year with our wholesale customers returned an 88 percent positive customer service rating. This was the highest rating ever and something our wholesale team can take pride in. Driving our customer satisfaction rating is the improved online ordering convenience offered to customers, the efficiency and accuracy with which orders are filled and the incredible array of product the LDB is able to offer wholesale customers. In fiscal 2012/13, customers continued to demonstrate their approval of the LDB's Web Store, the 24/7 online ordering service, with an additional 75 wholesale customers utilizing the service last year.

A core goal of the LDB is to prevent the sale of alcohol to minors by ensuring staff is well-trained and rigorous in the checking of identification. To reflect the seriousness the LDB places on this commitment, the expectation is that staff is flawless. Last year, there were a number of lapses in vigilance that resulted in the LDB missing its target of being 100 per cent compliant. The LDB is revamping the employee training handbook related to ID-checking and is re-doubling efforts to ensure staff do not sell alcohol to minors.

The most significant event in terms of LDB operations in fiscal 2012/13 was the decision by government to discontinue the process to transfer the LDB's warehousing and distribution services to the private sector. Following this decision, government announced it still intends to sell the Vancouver Distribution Centre property and have the LDB relocate its wholesale and distribution operations. The initial relocation planning began late in the fiscal year.

Fiscal 2012/13 was a successful one for the Liquor Distribution Branch and I want to thank the LDB's retail and wholesale customers and every employee for contributing to that success.

Going forward, the LDB anticipates very modest sales growth, primarily due to inflation in the form of expected supplier cost increases. The re-introduction of the PST/GST on April 1, 2013 has an adverse effect on LDB revenue because product mark-up rates have been lowered to pre-HST levels – a reduction that is reflected in future projections.

The 2012/13 LDB Annual Report was prepared under my direction in accordance with the Budget Transparency and Accountability Act and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported. The information presented reflects the actual performance of LDB for the twelve months ended March 31, 2013 in relation to the service plan published in February 2012.

I am responsible for ensuring internal controls are in place to ensure information is measured and reported accurately and in a timely fashion.

All significant assumptions, policy decisions, events and identified risks, as of May 30, 2013, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, strategies, measures or targets made since the 2012/13 – 2014/15 service plan was released and any significant limitations in the reliability of data are identified in the report.

R. Blain Lawson
General Manager and Chief Executive Officer
June 11, 2013

GOVERNANCE

In British Columbia, the Liquor Distribution Branch (LDB) is one of two branches of government responsible for the beverage alcohol industry. The *Liquor Distribution Act* gives the LDB the sole right to purchase beverage alcohol both within BC and from outside the province, in accordance with the federal *Importation of Intoxicating Liquors Act*.

Reporting to the Attorney General and Minister of Justice, the LDB:
- handles importation and distribution of beverage alcohol in BC;
- operates the BC Liquor Stores retail chain (BCLS) and distribution centres; and
- has a General Manager who is responsible for administering the *Liquor Distribution Act*, which includes the oversight of BCLSs, subject to direction from the Minister.

The *Liquor Distribution Act* clarifies:
- LDB administration;
- BCLS operation; and
- the role and powers of the LDB General Manager.

The LDB follows the Crown Agencies Resource Office guidelines for service plans and annual reports, and is reported out in public accounts in a manner similar to a commercial Crown corporation, on a modified equity basis.

Another branch of the Ministry of Justice — the Liquor Control and Licensing Branch (LCLB) — licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the *Liquor Control and Licensing Act*. For more information, please visit **pssg.gov.bc.ca/lclb/**.

The LDB and LCLB have a shared responsibility to encourage the responsible consumption of beverage alcohol and work closely together to coordinate policies and programs to this end.

Visit **bcldb.com** and click on the About Us link for more about the LDB.

MEET THE LDB EXECUTIVE MANAGEMENT COMMITTEE

R. Blain Lawson
General Manager and Chief Executive Officer

Roger Bissoondatt
Chief Financial Officer

Kelly Wilson
Executive Director
Wholesale and Retail Services

Michael Procopio
Executive Director
Human Resources

Don Farley
Executive Director
Information Services

Renee Shrieves
Director
Corporate Policy

Maria Patten
Director
Corporate Projects

Donna Morse
Director
Corporate Security

Catherine Sloan
Legal Counsel

BUSINESS OF THE LIQUOR DISTRIBUTION BRANCH

As of March 31, 2013, the LDB:
- has a workforce of approximately 3,500 full- and part-time employees;
- operates 195 BCLSs throughout the province;
- has two wholesale customer centres, in Vancouver and Victoria;
- operates two distribution centres, in Vancouver and Kamloops; and
- has a Head Office facility in Vancouver.

As part of BC's mixed model retail system, the LDB is committed to providing customers with an enhanced shopping environment, increased product selection and a high level of service.

The LDB purchases beverage alcohol from more than 400 suppliers and manufacturers within the province, across the country and around the world. Licensed manufacturers in BC include 250 wineries, 66 breweries, and 20 distilleries.

With more than 1,400 beverage alcohol retail outlets operating in BC, consumers have a variety of choices depending on their service needs, including:

- 195 BC Liquor Stores (government-owned and -operated stores selling beverage alcohol to retail and wholesale customers);
- 670 licensee retail stores (LRSs – private stores licensed to sell all beverage alcohol products);
- 221 rural agency stores (RASs – general merchandise stores in rural communities authorized to sell all beverage alcohol products);
- 279 on-site manufacturer stores (stores at wineries, breweries and distilleries that sell the products that they manufacture);
- 35 off-site manufacturer stores (stores operated by the BC wine industry that sell BC winery products);
- 12 private wine stores (stores that sell domestic and imported wines); and
- 11 duty-free stores.

In addition to retail stores, there were approximately 8,000 bars, restaurants and other licensed on-premise establishments.

The wholesale beverage alcohol distribution model in BC includes the two government distribution centres, BCLSs and a number of manufacturers and private distributors that are authorized to distribute beverage alcohol as agents of the LDB.

PERCENTAGE OF GROSS $ SALES BY SALES CHANNEL 2012/13

BC Liquor Stores	40.5%
Licensee Retail Stores	34.8%
Licensees (pubs, bars, restaurants)	15.9%
Agency Stores	8.8%

PERCENTAGE OF GROSS $ SALES BY PRODUCT CATEGORY 2012/13

Beer	37.8%
Wine	31.9%
Spirits	25.9%
Refreshment Beverages	4.4%

OUR CUSTOMERS AND STAKEHOLDERS

The LDB is one of the largest retailers in BC, with more than 36.8 million retail customer visits to BC Liquor Stores during fiscal 2012/13. We also processed more than 408,000 wholesale customer transactions. The LDB sources a wide selection of domestic and international beverage alcohol products for our retail and wholesale customers.

To serve the interests of our customers and stakeholders, we:

- deliver quality products and services;
- provide products and services to a variety of beverage alcohol outlets throughout British Columbia;
- manage the importation, warehousing and distribution of beverage alcohol;
- promote the safe and responsible use of beverage alcohol; and
- implement policies to ensure LDB workplaces are safe and free of harassment or discrimination.

To fulfill our responsibilities to the government and people of British Columbia, we:

- generate revenue for the government of British Columbia;
- manage the LDB's business risks;
- ensure accountability of key business partners; and
- develop and implement programs and services aimed at deterring the sale of beverage alcohol to minors and those who appear intoxicated.

LDB CORE BUSINESS AREAS

Wholesale and Retail Services

Includes Distribution, Store Operations, Purchasing, Marketing, Wholesale and Real Estate.

Corporate Security

Responsible for security policies and programs and the LDB's Emergency Management program.

Legal Services

Provides legal advice to the LDB and directs the Information and Privacy program.

Corporate Policy

Responsible for Corporate Policy and Communications.

Finance

Manages revenue, expenditures, budgeting, reporting, auditing and administers policies related to the importation and distribution of beverage alcohol.

Information Services

Implements and maintains the LDB's technology and information systems.

Corporate Projects

Leads the development and support of project portfolio management, provides project best practices and methodology and oversees all corporate projects.

Human Resources

Provides services related to recruitment and selection, employee training and development, labour relations, classification and compensation, leave and benefit administration and organizational development.

VISION

That our customers have the opportunity to discover, enjoy and share the evolving world of beverage alcohol.

MISSION

To be a customer-focused, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and corporate responsibility.

VALUES

Exemplary Service

We take pride in the quality of our work. We strive for excellence in serving customers and coworkers.

Corporate Social Responsibility

We encourage and support the responsible use of beverage alcohol and minimize the impact of our operations on the environment.

Integrity

We take responsibility and are fully accountable for our actions, decisions and behaviour. We are open, honest and fair.

Respect

We treat all individuals with fairness, dignity and respect.

Teamwork

We support one another to achieve corporate goals.

Innovation

We encourage our people to find innovative and creative ways to improve our business.

THE FOUR PILLARS FRAMEWORK

The LDB organizes its strategic priorities and key objectives around the concept of four pillars. All four pillars support financial performance and at the foundation are the LDB's dedicated employees.

HIGH-LEVEL GOALS

The five high-level goals are:

Goal 1	Goal 2	Goal 3	Goal 4	Goal 5
Financial Performance	Workplace Quality and Employee Excellence	Customer Experience	Business Effectiveness	Corporate Social Responsibility
Meet financial objectives approved by government.	Create a work environment that encourages greater employee engagement.	Maintain a high level of wholesale and retail customer satisfaction.	Maintain operating efficiencies in a climate of constant change.	Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment.

LINKING GOALS TO PERFORMANCE MEASURES

	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5
GOALS	Financial Performance	Workplace Quality and Employee Excellence	Customer Experience	Business Effectiveness	Corporate Social Responsibility
	Meet financial objectives approved by government.	Create a work environment that encourages greater employee engagement.	Maintain a high level of wholesale and retail customer satisfaction.	Maintain operating efficiencies in a climate of constant change.	Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment.
STRATEGIES	• Grow sales and effectively manage operating expenses	• Enhance staff skills and engagement through management development, employee training and increased communication • Implement succession management plans for the organization • Provide a safe, healthy and harassment-free workplace	• Continuously refresh the store network • Continuously provide enhanced customer services	• Maximize the potential efficiencies available through improved distribution operations • Increase the use of current and cost-effective technology	• Prevent sales to minors or intoxicated persons in BC Liquor Stores through staff education and enforcement of ID-checking requirements • Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders • Reduce the impact of operations on the environment
PERFORMANCE MEASURES	• Net income	• Employee engagement	• Retail customer satisfaction • Wholesale customer satisfaction	• BC Liquor Store sales per square foot • Distribution Centre labour cost per case shipped • Distribution Centre order fill rate	• Store compliance with ID-checking requirement • Customer awareness of LDB corporate social responsibility programs • Plastic shopping bag reduction

GOAL 1: FINANCIAL PERFORMANCE

Meet financial objectives approved by government

2012/13 HIGHLIGHTS

The LDB's net income for fiscal 2012/13 was $929.6 million – $23.4 million, or 2.6 per cent, higher than target. Compared to the previous year, net income was $18.4 million, or two per cent, higher.

Provincial liquor sales were $2.95 billion in 2012/13 – $39.0 million, or 1.3 per cent, higher than budget and $60.5 million, or 2.1 per cent, higher than the previous year.

The following tables show historical sales by different product categories in dollars and litres. Sales in dollars from fiscal 2010/11 onwards are reported using International Financial Reporting Standards (IFRS). Fiscal 2009/10 and prior are reported under Canadian Generally Accepted Accounting Principles (GAAP).

Sales by Major Category ($000s)

	2012/13	2011/12	2010/11	2009/10	2008/09	Change in Previous Year $	Change in Previous Year %
Domestic Spirits	386,800	398,830	405,873	411,227	426,101	(12,030)	(3.0)
Import Spirits	376,876	353,914	329,999	318,559	314,827	22,962	6.5
Total Spirits	**763,676**	**752,744**	**735,872**	**729,786**	**740,928**	**10,932**	**1.5**
Domestic Wine	420,513	398,671	385,442	373,279	354,793	21,842	5.5
Import Wine	521,405	499,033	467,042	455,269	460,576	22,372	4.5
Total Wine	**941,918**	**897,704**	**852,484**	**828,548**	**815,369**	**44,214**	**4.9**
Domestic Refreshment	104,780	101,157	97,925	104,350	91,467	3,623	3.6
Import Refreshment	25,543	21,985	21,193	20,827	23,467	3,558	16.2
Total Refreshment	**130,323**	**123,142**	**119,118**	**125,177**	**114,934**	**7,181**	**5.8**
Domestic Beer	897,985	886,005	858,484	918,399	897,135	11,980	1.4
Import Beer	215,088	220,990	236,176	243,785	213,917	(5,902)	(2.7)
Total Beer	**1,113,073**	**1,106,995**	**1,094,660**	**1,162,184**	**1,111,052**	**6,078**	**0.5**
Miscellaneous/Special Orders	1,427	9,284	8,011	8,377	12,247	(7,857)	(84.6)
Total Sales	**2,950,417**	**2,889,869**	**2,810,145**	**2,854,072**	**2,794,530**	**60,548**	**2.1**

Sales by Major Category in Litres (000s)

	2012/13	2011/12	2010/11	2009/10	2008/09	Change	%
Domestic Spirits	13,344	13,779	13,980	14,846	15,867	(435)	(3.2)
Import Spirits	10,844	10,402	9,869	9,858	9,877	442	4.2
Total Spirits	**24,188**	**24,181**	**23,849**	**24,704**	**25,744**	**7**	**0.0**
Domestic Wine	33,034	31,779	31,298	30,299	29,044	1,255	3.9
Import Wine	30,374	29,892	28,702	28,490	28,298	482	1.6
Total Wine	**63,408**	**61,671**	**60,000**	**58,789**	**57,342**	**1,737**	**2.8**
Domestic Refreshment	23,286	22,347	21,927	22,938	19,165	939	4.2
Import Refreshment	4,265	3,681	3,535	3,454	3,970	584	15.9
Total Refreshment	**27,551**	**26,028**	**25,462**	**26,392**	**23,135**	**1,523**	**5.9**
Domestic Beer	227,322	227,110	221,023	241,385	236,782	212	0.1
Import Beer	43,202	45,715	51,516	52,363	46,357	(2,513)	(5.5)
Total Beer	**270,524**	**272,825**	**272,539**	**293,748**	**283,139**	**(2,301)**	**(0.8)**
Miscellaneous/Special Orders	120	131	134	163	164	(11)	(8.4)
Total Sales	**385,791**	**384,836**	**381,984**	**403,796**	**389,524**	**955**	**0.2**

Goal 1: Targets and Results 2012/2013

GOAL: Meet financial performance objectives approved by government

STRATEGY: • Grow sales and effectively manage operating expenses

Measure	Actual			Target			
	10/11	11/12	12/13	12/13	13/14	14/15	15/16
Net income ($ millions)	890.3	911.1	929.6	906.1	850.9	860.4	868.5

RESULTS AND MEASUREMENT DESCRIPTION

Net income was $929.6 million, $23.4 million above budget. This was the result of stronger than forecasted sales in wines and spirits. The LDB has updated its sales forecasts and assumptions and has revised its net income targets in the 2013/14–2015/16 Service Plan.

LDB's net income is the contribution made to the provincial government by the LDB from the total sales of liquor in the province and is audited by the BC Auditor General. LDB net income is an important source of funding for government programs and services. The net income target is based on LDB forecasts and assumptions and is approved by the Treasury Board.

GOAL 2: WORKPLACE QUALITY AND EMPLOYEE EXCELLENCE

Create a work environment that encourages greater employee engagement

2012/13 HIGHLIGHTS

Succession Management, Leadership Development and Essential Skills Training

Succession management at the LDB is an integrated, holistic process that supports the longevity and vitality of our workforce. Succession focuses on understanding and anticipating our future workplace, and is fueling the development of internal employees to ensure they are equipped for future roles and responsibilities.

The Signature Leadership Program provides managers and supervisors, identified by the organization as high performers and high-potential employees, with an opportunity to enhance existing capabilities and build their capacity to lead. Last year, 18 employees enhanced their skills by participating in the program – bringing the total number of employees who have successfully completed the program to 50. Following each program delivery an evaluation is done to determine the program's effectiveness and adjustments are made to maximize the benefit for participants.

In 2012/13, the LDB's Essential Skills initiative provided employees with skill development opportunities that were tailored specifically for the LDB workplace. Modules included Respectful Workplace training, in which 1,055 employees completed the training and Labour Relations Principles and Practices, in which 25 employees completed the training. The LDB's efforts in 2012/13, brings the total number of LDB employees who have received the training to 2,845 and 236, respectively.

Supporting BC Liquor Stores VQA Advocates

In 2012/13, the LDB re-designed and delivered an exciting program for BC Liquor Store VQA Advocates – employees who have specific knowledge and service responsibility related to VQA wines. Employees who have engaged in the program are benefitting from the knowledge of local VQA wine expertise. This program advances employee excellence at the LDB.

One of Canada's Top 100 Employers

In 2012/13, the LDB was recognized by Mediacorp as one of British Columbia's Top Employers for the fourth consecutive year.

Goal 2:	Targets and Results 2012/2013
GOAL:	Create a work environment that encourages greater employee engagement
STRATEGIES:	• Enhance staff skills and engagement through management development, employee training and increased communication • Implement succession management plans for the organization • Provide a safe, healthy and harassment-free workplace

Measure	Actual			Target			
	10/11	11/12	12/13	12/13	13/14	14/15	15/16
Employee Engagement	69	69	N/A	N/A	70	N/A	70

RESULTS AND MEASUREMENT DESCRIPTION

The LDB measures employee engagement through a bi-annual Workplace Environment Survey (WES) conducted for the LDB by BC Stats. The WES asks employees a number of questions about their work environment and the results are compiled and summarized into a single engagement score known as the WES Score.

Following the last Work Environment Survey conducted in 2011, we announced the LDB will join the BC Public Service Agency in moving to a two-year WES cycle. Therefore, the next WES will be conducted in 2013/14.

There continues to be a high degree of attention and activity in support of workplace quality and employee excellence at the LDB. The LDB is addressing specific areas for improvement identified from past survey results by conducting focus groups to engage employees in solution-based discussion, and through the development of initiatives designed to improve workplace quality and employee excellence. Measuring our employees' level of commitment and satisfaction with their job, and the organization, directly supports our understanding of employee engagement at the LDB.

The LDB believes its target WES score of 70 reflects a healthy work environment.

GOAL 3: CUSTOMER EXPERIENCE

Maintain a high level of wholesale and retail customer satisfaction

2012/13 HIGHLIGHTS

Store Upgrades

In order to provide a consistently high level of customer experience in the 195-store chain, the LDB upgrades a selection of stores each year. During fiscal 2012/13, the LDB moved five stores to new locations that improved customer convenience and in-store retail presentation, while a further eight stores underwent major remodelling and an additional three stores were significantly remodelled.

TASTE Magazine

TASTE is a magazine produced by the LDB that includes articles on beverage alcohol products, recipes and entertaining ideas written by well-known wine and food experts. TASTE is distributed through BC Liquor Stores and has an annual circulation of approximately 520,000. TASTE is also available online at **bcliquorstores.com**.

Wine Education

In 2012/13, the LDB continued to offer customers an opportunity to explore and learn about the world of wine. These events included 12 Product Consultant Wine Seminars and 20 cooking demonstrations featuring chefs from TASTE magazine and local Vancouver restaurants and 11 sit-down tasting and education seminars at the 39th & Cambie flagship store. In all, BC Liquor Stores offered more than 300 in-store special events across the 195-store locations.

Product Releases

The LDB also offered customers a number of special releases throughout 2012/13. These included the 2009 Bordeaux wines, Best of BC Wines, and six releases of rare Scotch whisky.

Website

BC Liquor Stores' website bcliquorstores.com continued to evolve in fiscal 2012/13 with upgrades to search functions and improved access to content from the LDB's TASTE magazine. Further, last year work began to separate the BC Liquor Stores' retail content from the Liquor Distribution Branch's corporate and wholesale customer content by creating a separate website for the latter. The new websites will be launched in the spring of 2013.

Mobile App

The increasing consumer popularity of mobile technology led the LDB to launch an Android-based app in 2012/13 to offer the same service to Android users that has been enjoyed by iPhone users. The application includes a store locator, a product and inventory search function, as well as a personalized 'my cellar' feature. Since the beginning of fiscal 2012/13, the iPhone app has had over 98,000 downloads and the Android app had 8,000 downloads in its first months of being offered.

Goal 3:	Targets and Results 2012/2013
GOAL:	Maintain a high level of wholesale and retail customer satisfaction
STRATEGIES:	• Continuously refresh the store network • Continuously provide enhanced customer services

Measure	Actual			Target			
	10/11	11/12	12/13	12/13	13/14	14/15	15/16
Retail Customer Satisfaction	98%	N/A	98%	90%	N/A	90%	N/A
Wholesale Customer Satisfaction	82%	N/A	88%	90%	N/A	90%	N/A

RESULTS AND MEASUREMENT DESCRIPTION

Retail Customer Satisfaction

The survey of BC Liquor Stores' customers that was conducted in 2012/13 indicated a 98 per cent satisfaction rate with the service they received. This level of satisfaction gives the LDB confidence that BC Liquor Stores have the product customers are looking for, staff have the knowledge to assist customers with their selection and staff are providing a high-level of service.

The retail customer satisfaction rating is determined by a survey of BC Liquor Store retail customers conducted by a professional survey company. This survey is conducted once every two years so that customers have an adequate amount of time to experience LDB service initiatives which often take more than one year to fully implement. The high targets established for both retail and wholesale customer satisfaction reflect the LDB's commitment to customer service.

Wholesale Customer Satisfaction

The survey of LDB wholesale customers that was conducted in 2012/13 indicated an 88 per cent satisfaction rate with the service they received. This level of satisfaction is a significant improvement over the 82 per cent achieved in the previous survey and gives us every confidence the wholesale team will achieve the 90 per cent target.

The wholesale customer satisfaction rating is determined through a survey of a sample of wholesale customers — bars, restaurants and private retailers— conducted by a professional survey company. This survey is conducted once every two years so that customers have an adequate amount of time to experience LDB service initiatives which often take more than one year to fully implement.

GOAL 4: BUSINESS EFFECTIVENESS

Maintain operating efficiencies in a climate of constant change

2012/13 HIGHLIGHTS

Wholesale Business Development

In fiscal 2012/13, the LDB continued its focus on transferring large-volume wholesale customers serviced by the BC Liquor Store chain (BCLSs) to the LDB's Wholesale Customer Centre (WCC). Last year, WCC sales increased by $54 million – an increase of 11 per cent. The WCC now services 91 per cent of licensee retail stores, on the basis of revenue. The WCC offers customers 24/7 access to online ordering, a customer service call centre and product delivery to their place of business. Servicing additional wholesale customers through the WCC enables BCLS staff to offer more services to their retail customers.

Goal 4:	Targets and Results 2012/2013
GOAL:	Maintain operating efficiencies in a climate of constant change
STRATEGIES:	• Maximize the potential efficiencies available through improved distribution operations • Increase the use of available, current and cost-effective technology

Measure	Actual			Target			
	10/11	11/12	12/13	12/13	13/14	14/15	15/16
BC Liquor Store Sales per Square Foot	$1,259	$1,262	$1,271	$1,286	$1,278	$1,303	$1,303
Distribution Centre Labour Cost per Case Shipped	$1.74	$1.73	$1.75	$1.74	$1.74	$1.74	$1.74
Distribution Centre Order Fill Rate	93%	93%	93%	93%	93%	93%	93%

RESULTS AND MEASUREMENT DESCRIPTION

BC Liquor Store Sales per Square Foot

Fiscal 2012/13 sales per square foot were $1,271, below the target of $1,286. The LDB's initiative to have large-volume wholesale customers voluntarily change their point of service from a BC Liquor Store to the Wholesale Customer Centre was more successful than forecasted, therefore sales to wholesale customers from the stores decreased more than anticipated. This is a positive development for the LDB. This indicator is based on the annual dollar sales of the store system divided by total store system square footage. This measures how well the LDB converts its floor space into sales. The annual targets are based on a philosophy of continuous improvement.

Distribution Centre Labour Cost per Case Shipped

Fiscal 2012/13 labour cost per case was $1.75, slightly higher than the target of $1.74 per case. This productivity measure is calculated by dividing Distribution Centre labour expenses by total case shipments.

Distribution Centre Order Fill Rate

The LDB met the fiscal 2012/13 target of 93 per cent. This is a measure of the completeness of orders filled by the LDB distribution centres and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered. The calculation excludes products that are not stocked by the LDB distribution centres. The target of 93 per cent strikes the right balance between the effective management of inventory and the minimization of product stock-outs.

GOAL 5: CORPORATE SOCIAL RESPONSIBILITY

Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment

2012/13 HIGHLIGHTS

Monthly Responsible Use Awareness Programs

Throughout the year, the LDB encourages the responsible use of beverage alcohol through posters displayed in all BC Liquor Stores. In 2012/13, these awareness programs included: Don't Buy for Minors; the anti-binge drinking message This is your Last Call; Don't Drink and Drive; Play Sober on the Water; Drive Safe, Drive Sober; Alcohol and Pregnancy Don't Mix; This Halloween Carve out a Plan – Get Home Safe; Be a Good Host; Champions Drink Responsibly and Ride Safe, Stay Sober on the Slopes.

Support Dry Grad

Support Dry Grad collects customer donations that help fund local high school alcohol-free graduation events in 55 school districts throughout British Columbia. In 2012/13, the LDB conducted its 13th Support Dry Grad campaign and raised more than $459,000, bringing the total that has been raised in the 13 years to $4.9 million.

Share-a-Bear

Since 1989, the LDB has sold plush teddy bears every November and December in its BC Liquor Stores. Every bear sold has a 'twin' and this twin is donated by BC Liquor Stores to a children's charity. Employees at each BC Liquor Store select the local charities to support, which include Christmas stocking funds, hospitals, police and ambulance services, and other community groups. In fiscal 2012/13, over 24,000 bears were donated to charities.

Environment

In 2012/13, two BC Liquor Store interiors were certified by the Canadian Green Building Council under Leadership in Energy and Environmental Design for Commercial Interiors. One project attained a 'Silver' designation and the other was designated 'Certified'.

For all other interior remodels, the LDB used many of the same features that were used in these LEED projects, such as energy-efficient LED lighting, plant-based tiles, as well as paints and adhesives with low chemical emissions. The LDB continues to adopt innovative products as they come onto the market to further improve its environmental performance and will seek LEED certification when it is practical.

The LDB also completed a number of energy-efficient lighting and IT projects in 2012/13 that save the LDB an estimated 935,000 kilowatt hours of electricity annually – that's enough energy to power about 85 BC homes per year, and will also save the organization over $90,000 in electricity costs annually.

Goal 5:	Targets and Results 2012/2013
GOAL:	Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment
STRATEGIES:	• Prevent sales to minors or intoxicated persons in BC Liquor Stores through staff education and enforcement of ID-checking requirements • Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders

Measure	Actual			Target			
	10/11	11/12	12/13	12/13	13/14	14/15	15/16
Store Compliance with ID-Checking Requirement	N/A	96%	92%	100%	100%	100%	100%
Customer Awareness of LDB Corporate Responsibility Programs	90%	N/A	91%	90%	N/A	90%	N/A
Plastic Shopping Bags (millions)	18.2	16.1	16.6	11.4	15.5	15.2	14.9

RESULTS AND MEASUREMENT DESCRIPTION

Store Compliance with ID-Checking Requirement:
The result for Fiscal 2012/13 was 92 per cent, below the level of compliance in the previous year, and is below the goal of 100 per cent. The LDB is revamping the employee training handbook related to ID-checking and is re-doubling efforts to ensure staff are not selling alcohol to minors.

In British Columbia, you must be 19-years-of-age to legally purchase liquor. In fiscal 2011/12 the Liquor Control and Licensing Branch (LCLB) implemented an ID-checking program for government and private liquor stores that involves under-aged agents to test compliance. The LDB uses LCLB's compliance statistics for this measure. The target of 100 per cent reflects the importance to the LDB of preventing sales to minors.

Customer Awareness of LDB Corporate Social Responsibility Programs:
In Fiscal 2012/13, customer awareness of social responsibility messaging in BC Liquor Stores was 91 per cent, exceeding the goal of 90 per cent. This excellent result demonstrates the effectiveness of the in-store visuals created by the LDB's marketing team. The LDB displays messaging in its stores that encourages the responsible use of beverage alcohol. The themes (e.g. prevention of drinking/driving or sales to minors) change monthly. The LDB measures customer recall of this messaging through the same survey the LDB uses to rate its retail customer service performance (See Goal 3). This survey is conducted once every two years so that customers have an adequate amount of time to experience LDB service initiatives which often take more than one year to fully implement. This target reflects the LDB's desire to have a high customer recall of its responsible-use messaging.

Plastic Shopping Bags:
The result for Fiscal 2012/13 was 16.6 million bags shipped, which is above the target of 11.4 million.

An ongoing bag reduction program which involved BC Liquor Stores providing customers with reusable bags at no-charge and posting reminder signage throughout the stores, as well as point-of-sale encouragement, resulted in a combined 16 per cent reduction in plastic bag usage since the benchmark year of 2008/09. However, no further reduction has been realized in the last two fiscal years. This suggests that while many customers wish to support the environmental objectives of the LDB, many are unwilling to carry alcohol products in public without a bag and often do not have a reusable bag with them when they shop for alcohol.

Targets were adjusted in the 2013/14 – 2015/16 Service Plan to reflect a more realistic expectation of customer behaviour and appear in the above table. The LDB will continue to work together with customers and staff to achieve further reductions in plastic bag use. This will become part of an overall waste reduction strategy being pursued by the LDB.

PERFORMANCE MANAGEMENT SYSTEMS

The following information summarizes the source and accuracy of the data used for the service plan performance measures.

Sales Data (Performance Measures 1.1 and 4.1)
Sales data for BC Liquor Stores is collected from computerized point-of-sale cash register systems and stored in head office databases. Sales made directly to customers by agents on behalf of the Liquor Distribution Branch (LDB) are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Office of the Auditor General annually.

Expense Data: (Performance Measures 1.1 and 4.2)
LDB expense data is captured, stored and reported by the LDB's financial system. The LDB's financial statements are audited by the Office of the Auditor General.

Employee and Customer Surveys (Performance Measures 2.1, 3.1, 3.2, 5.2)
BC Stats conducts the employee engagement survey for the LDB. The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

Distribution Data (Performance Measures 4.2, 4.3)
Orders and shipments processed the by LDB distribution centers are captured and stored by computer applications designed for this purpose.

ID-Checking (Performance Measure 5.1)
LCLB administers an ID compliance checking program and provides the results of LDB store compliance to the LDB.

Plastic Shopping Bag Reduction (Performance Measure 5.3)
Plastic shopping bag usage by the LDB is determined from purchasing records.

BENCHMARKING

In 2012, the LDB benchmarked itself against a number of other organizations including: four provincial liquor boards; three non-Canadian government liquor authorities; two private distribution organizations and two private retailers. A total of 15 different measures were compared and results from the four that are most relevant to the LDB are shown below.

There are important differences in the operations and mandate of the LDB compared to most of these organizations and this affects their comparability. The LDB's relative performance to these organizations is shown below. Certain performance measures were only relevant to a selection of the organizations.

Performance Measures	2012 Ranking WORST ← → BEST	Number of Comparable Entities
Operating Costs as a Percentage of Total Sales	LDB	11
Net Income as a Percentage of Total Sales	LDB	10
BCLS Sales per BCLS FTE	LDB	6
Distribution Centres Cost per Case	LDB	5

Operating Costs as a Percentage of Total Sales

This measure indicates the overall operational efficiency of an organization and represents the per cent of each sales dollar that is used for operating costs.

Net Income as a Percentage of Total Sales

This is a measure of the overall health and profitability of an organization, and represents the per cent of each sales dollar that is generated for government in the case of public liquor authorities such as the LDB, or to shareholders in the case of private companies.

BCLS Sales per BCLS FTE

This is a measure of productivity of BC Liquor Store employees. FTE stands for "Full Time Equivalent" and is equal to one person-year of employment.

Distribution Centre Cost per Case

This measures how cost effective distribution centres are on a volume basis.

GOVERNMENT'S LETTER OF EXPECTATIONS

A key component of the LDB's governance framework is the Government's Letter of Expectations (GLE). The GLE is an agreement between the Government of British Columbia and the LDB that sets out the roles of each, the corporate mandate, high-level performance expectations and strategic priorities.

The GLE also provides direction from Government to the LDB to take specific actions. These specific actions from the 2012/13 GLE and the LDB's response to them are identified in the following table. The complete GLE is available on the LDB's website at **bcldb.com/annual-report**.

GOVERNMENT DIRECTION	LDB ALIGNMENT
Meet the LDB 2012/13 – 2013/14 Service Plan budget and performance targets, including net income.	The LDB provides monthly financial updates to Government and notifies Government on changes likely to affect the achievement of the targets.
Comply with the financial policies/guidelines provided by the Government for mark-up, taxation, the extent to which LDB may own capital assets, and LDB contributions to the Government.	The LDB complies with the Government's financial policies and guidelines.
Comply with the Government's and the Liquor Control and Licensing Branch's direction to rationalize and improve the regulatory framework for the importation, distribution and retailing of beverage alcohol products in British Columbia.	The LDB complies with Government's and the Liquor Control and Licensing Branch's direction.
Facilitate transition of private liquor stores appointed under the Liquor Distribution Branch to become licensees under the Liquor Control and Licensing Act and regulated by the Liquor Control and Licensing Branch.	In 2012/13 the LDB facilitated the transition of five types of private wine retailers to licensee status under the regulation of the LCLB. The LDB will continue to assist the Liquor Control and Licensing Branch in the transfer of private liquor store appointments.
Comply with Government's requirements to be carbon neutral under the Greenhouse Gas Reduction Targets Act, including: accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the LDB's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of the LDB's scope of operations.	The LDB is accurately measuring and reporting on its greenhouse gas emissions as required by government, and is implementing measures to reduce those emissions. The LDB is offsetting emissions through payments to the Pacific Carbon Trust.
Work with service providers in the LDB's wholesale distribution network to improve on-time delivery and inventory turnover performance metrics.	The LDB has been successful in working with its service providers to ensure a consistent inventory turnover rate and continues to look for ways to improve this rate.

MANAGEMENT DISCUSSION AND ANALYSIS

ACTUAL 2012/13 FINANCIAL RESULTS COMPARED TO 2011/12 ACTUAL RESULTS

Fiscal 2012/13 saw sales growth continuing to improve as economic conditions and consumer confidence improved in British Columbia. Gross sales were $2.95 billion, an increase of $60.5 million from the previous year.

Commissions and discounts were $196.3 million, which was $8.7 million higher than fiscal 2011/12. This was due to increased sales to wholesale customers with higher purchase discounts and increased sales in the direct delivery channel.

Operating expenses were 10 per cent of sales for the fiscal year, which is comparable to the prior year. Expenses were $296.2 million, $5.2 million higher than fiscal 2011/12. The largest changes in expenses occurred in the following areas:

- Amortization increased by $2.1 million to recognize the useful life of information systems that were implemented in late fiscal 2011/12.
- Freight costs for delivery to stores increased $1.3 million due to higher volumes shipped from LDB warehouses and freight rate increases.
- Bank charges increased by $1.3 million due to increased use of credit cards and higher merchant fees.

For fiscal 2012/13, The LDB's net income and return to government was $929.6 million. This was an increase of $18.4 million compared to the prior year. LDB net income as a percentage of sales was 31.5 per cent which was comparable to fiscal 2011/12.

TABLE 1: SUMMARY OF FINANCIAL RESULTS OVER 5 YEARS

For the five years ended March 31, 2013 (all dollar figures in $000s)

	Actual 2012/13	Budget 2012/13	Actual 2011/12	Actual 2010/11	Actual 2009/10	Actual 2008/09
Sales	2,950,417	2,911,456	2,889,869	2,810,145	2,854,072	2,794,530
Commissions and Discounts	196,331	184,781	187,583	179,749	198,289	190,524
Cost of Sales	1,540,783	1,527,963	1,510,744	1,469,819	1,515,289	1,451,244
Gross Profit	1,213,303	1,198,712	1,191,542	1,160,577	1,140,494	1,152,762
Operating Expenses - Employment	165,264	163,402	164,314	159,800	163,326	156,109
Operating Expenses - Rent	37,949	37,782	37,026	36,002	33,662	31,845
Operating Expenses - Administration	93,018	98,536	89,651	85,727	78,887	82,000
Operating Income	917,072	898,967	900,551	879,048	864,619	882,808
Net Income	929,559	906,131	911,145	890,271	877,276	891,117
Gross Margin (%)	41.1%	41.2%	41.2%	41.3%	40.0%	41.3%
Operating Expenses to Sales (%)	10.0%	10.3%	10.1%	10.0%	9.7%	9.7%
Net Income to Sales (%)	31.5%	31.1%	31.5%	31.7%	30.7%	31.9%
Inventory Turnover	18	18	18	17	17	17
Debt	110	110	190	395	830	1,335
Retained Earnings	0	N/A	0	0	0	0

Beginning in fiscal 2010/11, net income is prepared based on IFRS. Financial results for fiscal 2009/10 and prior were prepared based on Canadian generally accepted accounting principles.

Fiscal 2012/13 capital expenditures of $10.4 million were significantly lower than the $19.0 million spent in the previous year. This reduction in spending on capital was consistent with government's expenditure reduction efforts as well as a reflection of the LDB's focus on the distribution privatization project, which was subsequently cancelled in September 2012. Capital expenditures were related to ongoing operational capital needs and tenant improvements for BCLSs.

During fiscal 2012/13, the customer count at BCLSs decreased slightly to 36.8 million customers from 37.9 million. The average retail customer transaction value at BCLSs increased to $33.70 from $32.77. This can be attributed to increased sales of spirits and wines, which normally are at higher price points than beer and refreshment beverages.

Overall inventory turns for the LDB have remained at 18 turns. This indicates the average number of days that the LDB holds inventory has remained at 20 days. Inventory turns at the LDB's distribution centres and BCLSs remained constant at 12 turns per year. The consistency of inventory turns reflects the close management of LDB inventories.

TABLE 2: KEY INDICES

(all $ figures in $000s)

	Actual 2012/13	Budget 2012/13	Change vs. 2012/13 Budget	Actual 2011/12	Change vs. 2011/12 Actual
Gross Sales	2,950,417	2,911,456	38,961	2,889,869	60,548
Net Income	929,559	906,131	23,428	911,145	18,414
Capital Expenditures	10,448	21,678	(11,230)	19,020	(8,572)
Gross Margin %	41.1%	41.2%	(0.1%)	41.2%	(0.1%)
Operating Income to Sales	31.1%	30.9%	0.2%	31.2%	(0.1%)
Operating Expenses to Sales	10.0%	10.3%	(0.3%)	10.1%	0.1%
Net Income to Sales	31.5%	31.1%	0.4%	31.5%	0.0%
Inventory Turnover	18	18	-	18	-
Customer Count	36,801	N/A	N/A	37,908	(1,107)
Average Transaction $ Value	$33.70	N/A	N/A	$32.77	$0.93

Retail and Wholesale Channels

The segmented information that follows allocates the financial results into the retail and wholesale channels on an activity-based costing analysis. The retail operations cover all counter sales in BCLSs, and wholesale represents all other sales. An activity-based costing analysis between retail and wholesale, which allocates expenses between the two channels, was performed based on activities in 2010/11. The results of this analysis were used in this year's segmentation. The analysis was not done for 2011/12 since there were no significant changes in activity during the year.

Retail Channel

The net income as a percentage of sales decreased from 36.5 per cent to 35.4 per cent. The segment experienced a sales growth of $10.1 million, representing a 0.9 per cent increase over the prior year. Cost of sales, as a percentage of sales, increased by 1.1 per cent over fiscal 2011/12 due to a change in product mix at the BCLSs. Wine and spirit sales mix decreased due to the movement of wholesales sales from the BCLSs to the wholesale customer centre.

TABLE 3: RETAIL RESULTS

Retail (in $000s)	Actual 2012/13	Budget 2012/13	% Actual Sales	Actual 2011/12	% Actual Sales	% Change
Sales	1,195,825	1,194,580	100.0	1,185,716	100.0	0.9
Cost of Sales	576,171	574,221	48.2	559,012	47.1	3.1
Operating Expenses	202,607	204,427	16.9	199,033	16.8	1.8
Other Income	6,244	3,582	0.5	5,297	0.4	17.7
Net Income	**423,291**	**419,514**	**35.4**	**432,968**	**36.5**	**(2.2)**

Wholesale Channel

Net income, as a percentage of sales, increased from 28.1 per cent to 28.9 per cent. Sales increased by $50.4 million, or 3 per cent due to increased wholesale sales and the shift of sales from the BCLSs. Discounts increased by $8.7 million or 4.7 per cent over the previous year due to greater sales to wholesale customers. Cost of sales, as a percentage of sales, increased by 0.8 per cent. This channel has a higher proportion of beer and BC wine sales, resulting in an overall lower return. The mark-up on beer is a per litre mark-up and hence, cost of sales, as a percentage of sales, will increase with rising beer prices. BC wines have lower gross margins due to the mark-up policy for direct delivery of wines produced from 100 per cent BC grapes.

TABLE 4: WHOLESALE RESULTS

Wholesale (in $000s)	Actual 2012/13	Budget 2012/13	% Actual Sales	Actual 2011/12	% Actual Sales	% Change
Sales	1,754,592	1,716,876	100.0	1,704,153	100.0	3.0
Commissions & Discounts	196,331	184,781	11.2	187,583	11.0	4.7
Cost of Sales	964,612	953,742	55.0	951,732	55.8	1.4
Operating Expenses	93,624	95,318	5.3	91,958	5.4	1.8
Other Income	6,243	3,582	0.4	5,297	0.3	17.7
Net Income	**506,268**	**486,617**	**28.9**	**478,177**	**28.1**	**5.9**

Product Categories

Overall, there was a 2.1 per cent increase in sales over the previous year. The wine and refreshment beverage categories both had strong growth, followed by import spirits and domestic beers.

The largest percentage dollar increase was in the refreshment beverage category at 5.8 per cent or $7.2 million. This was followed by wine with an increase of 4.9 per cent or $44.2 million; spirits with an increase of 1.5 per cent or $10.9 million; and beer with an increase of 0.5 per cent or $6.1 million.

In terms of volume, there was an overall increase of 0.3 per cent when compared to the previous year. The refreshment beverage category had the largest increase with a 5.9 per cent increase. Wine volume increased by 2.8 per cent, while spirit volume was flat compared to last year. Draught beer had a 0.3 per cent increase; however, this was offset by a 1.1 per cent decrease in packaged beer for an overall 0.8 per cent decrease in the beer category compared to last year.

TABLE 5: PRODUCT CATEGORY CHANGES

	% Change in Sales $ from Previous Year		% Change in Sales Volume (Litres) from Previous Year	
	Domestic	Import	Domestic	Import
Spirits	(3.0)	6.5	(3.2)	4.2
Wine	5.5	4.5	3.9	1.6
Beer	1.4	(2.7)	0.1	(5.5)
Refreshment	3.6	16.2	4.2	15.9

Market Share

Private sector stores, such as licensee retail stores (LRSs) and agency stores purchase their product from the LDB at discounts ranging from 10 to 30 per cent. During the year, the share of the liquor market accounted for by these outlets increased to 43.6 per cent from 42.5 per cent.

TABLE 6: ANALYSIS OF PROVINCIAL SALES BY SOURCE

For the five years ended March 31, 2013 (as a percentage of total dollar sales)

	2012/13	2011/12	2010/11	2009/10	2008/09
BC Liquor Stores (%)	40.5	41.0	41.4	40.7	40.7
Licensee Retail Stores (%)	34.8	34.4	33.9	33.5	33.0
Agency Stores (%)	8.8	8.1	8.1	8.2	8.3
Total Counter Sales (%)	84.1	83.5	83.4	82.4	82.0
Licensed Establishments (%)	15.9	16.5	16.6	17.6	18.0
Total Sales (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

TABLE 7: ANALYSIS OF COUNTER SALES BY SOURCE

For the five years ended March 31, 2013 (as a percentage of total dollar sales)

	2012/13	2011/12	2010/11	2009/10	2008/09
BC Liquor Stores (%)	48.2	49.1	49.7	49.3	49.6
Licensee Retail Stores (%)	41.4	41.2	40.6	40.7	40.3
Agency Stores (%)	10.4	9.7	9.7	10.0	10.1
Total Counter Sales Market (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

TABLE 8: REMITTANCES TO GOVERNMENT AGENCIES

The LDB paid $1.2 billion to various government agencies during fiscal 2012/13.
(in $000s)

	2012/13	2011/12	2010/11	2009/10	2008/09
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	140,460	140,962	141,152	147,105	146,782
HST/GST	162,186	156,744	135,329	59,439	56,752
Total	**303,646**	**297,706**	**276,481**	**206,544**	**203,534**
PROVINCIAL GOVERNMENT					
LDB Net Income	929,559	911,145	890,270	877,276	891,117
Social Services Tax	-	5	37,747	119,848	118,327
Liquor Control and Licensing	420	420	423	276	276
Total	**929,979**	**911,570**	**928,440**	**997,400**	**1,009,720**
MUNICIPAL GOVERNMENT					
Property Taxes	1,200	1,360	921	5,622	5,601
Business Licenses	37	35	31	39	36
Total	**1,237**	**1,395**	**952**	**5,661**	**5,637**
Total Remittances	**1,234,862**	**1,210,671**	**1,205,873**	**1,204,989**	**1,214,324**

FUTURE OUTLOOK

The table below outlines the LDB's financial forecast for the next three years. The financial forecast incorporates several key assumptions:

Sales assumptions, based on market trends by product categories and the elimination of the HST include:

- Overall sales decrease of 1.1 per cent in fiscal 2013/14, and an increase of 1.4 per cent in fiscal 2014/15 and 2015/16 due to inflationary trends
- Sales will decrease in fiscal 2013/14 with the replacement of the HST with the PST/GST beginning April 2013. The LDB will reduce its product mark-up rates to the same rates in effect prior to the HST implementation. This loss in revenue will be partially offset by inflation, in the form of expected supplier cost increases. Sales increases in 2014/15 and 2015/16 are also due to an expected supplier cost increase
- Growth in sales is expected to be realized in both the wholesale and retail segments and market share between retail to wholesale is expected to be stable

Overall volumes for all product categories are expected to be less than one per cent from the levels in fiscal 2012/13.

Continued growth in direct-delivered, 100 per cent BC wine is expected to result in a lower return on total sales due to the mark-up policy for direct delivery of wines produced from 100 per cent BC grapes.

Beverage alcohol is a highly regulated product and its consumption can be influenced by government decisions such as hours of operation of establishments that sell or serve liquor products and drinking and driving laws, to name just two. These types of policy decisions can have a significant impact on LDB revenue. The LDB's financial performance is also affected by price competition amongst suppliers of wine, spirits and refreshment beverages because mark-ups on these products are percentage-based, meaning a reduction in the supplier price will result in less LDB revenue, assuming a constant volume. Beverage alcohol is also a discretionary consumer product and sales are affected by changes in economic conditions—consumer confidence in the economy dictates the level of entertainment dollars spent on beverage alcohol. Weather patterns and timing of statutory holidays are other factors that influence LDB revenue; particularly in the refreshment beverage and packaged beer categories.

Operating expense assumptions include:

- Absorption of union negotiated salary increases for fiscal 2013/14 and no increases in subsequent years
- Higher rents, especially in the urban regions
- Greater amortization due to implementation of technology-related projects and store improvements
- Increased costs due to compliance with Payment Card Industry standards and increasing credit card charges (usage and merchant fees), freight and lease costs

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacement.

TABLE 9: BUDGET AND FORECASTS

(in $millions)

	Budget 2013/14	Forecast 2014/15	Forecast 2015/16
Total Sales	2,891.3	2,932.9	2,975.3
Commissions and Discounts	183.3	185.9	188.6
Cost of Sales	1,557.0	1,581.9	1,607.2
Operating Expense – Employment	164.4	164.4	164.4
Operating Expense – Rent	38.5	39.3	40.1
Operating Expenses – Administration	104.4	108.5	114.0
Other Income	7.2	7.5	7.5
Net Income	**850.9**	**860.4**	**868.5**

The following tables reflect the LDB's forecast for the retail and wholesale channels for the next three years.

TABLE 10: RETAIL AND WHOLESALE CHANNELS BUDGET AND FORECASTS

Retail
(in $000s)

	Budget 2013/14	Forecast 2014/15	Forecast 2015/16
Total Sales	1,186.5	1,203.5	1,220.9
Cost of Sales	571.9	580.1	588.5
Operating Expenses	208.0	211.4	215.6
Other Income	3.6	3.8	3.8
Net Income	**410.2**	**415.8**	**420.6**

Wholesale
(in $millions)

	Budget 2013/14	Forecast 2014/15	Forecast 2015/16
Total sales	1,704.8	1,729.4	1,754.4
Commissions and Discounts	183.3	185.9	188.6
Cost of sales	985.1	1,001.8	1,018.7
Operating Expenses	99.3	100.8	102.9
Other Income	3.6	3.7	3.7
Net Income	**440.7**	**444.6**	**447.9**

RISK MANAGEMENT

The LDB Executive Management Committee meets bi-weekly to discuss the LDB's performance, risks and actions required to address any deviations.

In view of the uncertainty of the economic climate, the LDB is closely monitoring its financial performance and budgets in order to mitigate financial risks.

The LDB will be updating its enterprise wide risk assessment in the coming year. This is to ensure that all major risks, financial and non-financial, have been identified and ranked. Plans will be developed to address and mitigate the key risks identified as a result of the assessment.

AREA	RISK FACTORS AND SENSITIVITIES	MITIGATING STRATEGIES
ECONOMY	Beverage alcohol is a discretionary consumer product and sales are affected by changes in economic conditions.	> The LDB carefully monitors its sales and expenses on a monthly basis and makes adjustments to its operations and budgets as necessary.
INFORMATION TECHNOLOGY	Availability of systems and quality of information play a key role in the delivery of efficient and effective services to LDB employees and the customers they serve.	> The LDB replaces aging infrastructure on a scheduled basis. The LDB is expanding its use of virtualization and data replication technologies to ensure systems are highly available to customers and lines of business. Enhancements have been made to IT service delivery processes to improve the quality of solutions and reduce business interruption. The LDB completes an annual review of its business continuity plans and updates them to ensure they remain current and effective.
RECRUITING AND RETENTION OF SKILLED EMPLOYEES	The LDB is expecting a large number of skilled long-service employees to retire in the next five years.	> The LDB has a focus on succession management in order to recruit skilled employees from outside the organization and to support the career development of employees within the organization. In 2012/13, a significant number of managers and supervisors received essential skills and leadership development training.
DISTRIBUTION CENTRE AND SERVICES	Government announced its intent to sell the Vancouver distribution centre and relocate to another location. The sale and relocation could create challenges with service levels and staff retention.	> The LDB is in the process of developing a plan that will include: • Site location for a new distribution centre • Developing a mitigating strategy for servicing customers to ensure product flow is not disrupted • Ensuring the location is reasonably accessible to LDB staff

CAPACITY

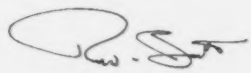
In fiscal 2012/13, despite the challenges posed by a significant number of long-term employees retiring, the LDB was able to to meet its objectives because of the dedication of staff and good priority management.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with International Financial Reporting Standards. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

The Office of the Auditor General of British Columbia has performed an independent audit of the financial statements of the Liquor Distribution Branch. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Liquor Distribution Branch.



R. Blain Lawson
General Manager and Chief Executive Officer

Roger M. Bissoondatt, CA, CMA
Chief Financial Officer

Vancouver, British Columbia
May 29, 2013

INDEPENDENT AUDITOR'S REPORT

To the Minister of Energy, Mines and Natural Gas, Province of British Columbia

Report on the Financial Statements

I have audited the accompanying financial statements of the British Columbia Liquor Distribution Branch, which comprise the statements of financial position as at March 31, 2013, and the statements of comprehensive income, advance due from (to) Province of British Columbia and cash flows for the periods ended March 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines, is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

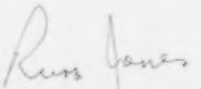
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained in my audit is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Liquor Distribution Branch as at March 31, 2013, and the results of its operations and its cash flows for the year ended March 31, 2013, in accordance with International Financial Reporting Standards.



Victoria, British Columbia
June 4, 2013

Russ Jones, MBA, CA
Auditor General (Acting)

AUDITED FINANCIAL STATEMENTS

British Columbia Liquor Distribution Branch

STATEMENTS OF COMPREHENSIVE INCOME

(in $000s)

For the years ended March 31, 2013 and 2012

Year Ended March 31,	Note	2013	2012
Sales	4	2,950,417	2,889,869
Less commissions and discounts		(196,331)	(187,583)
Net sales		2,754,086	2,702,286
Cost of sales		(1,540,783)	(1,510,744)
Gross profit		1,213,303	1,191,542
Administration expenses	5,13	(279,422)	(275,681)
Transportation expenses	5	(12,122)	(10,777)
Marketing expenses	5	(4,687)	(4,533)
Net operating income		917,072	900,551
Other income		12,487	10,594
Net income and comprehensive income		**929,559**	**911,145**

STATEMENTS OF DUE FROM THE PROVINCE OF BRITISH COLUMBIA

(in $000s)

Year Ended March 31,	2013	2012
Balance beginning of year	8,900	11,458
Net income and comprehensive income	(929,559)	(911,145)
Payments to the Province of British Columbia	921,735	908,587
Balance end of year	**1,076**	**8,900**

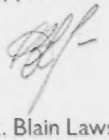
The accompanying notes are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

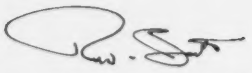
(in $000s)
As at March 31, 2013, and 2012

	Note	March 31 2013	March 31 2012
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	47,610	62,984
Intangible assets	7	11,732	2,471
Prepaid expenses - long term	8	2,709	8,697
		62,051	74,152
CURRENT ASSETS			
Due from Province of British Columbia	9	1,076	8,900
Inventories	10	88,555	81,815
Prepaid expenses	8	7,570	2,348
Accounts receivable	11	9,327	5,582
Cash		18,783	17,362
		125,311	116,007
TOTAL ASSETS		**187,362**	**190,159**
LIABILITIES			
NON-CURRENT LIABILITIES			
Other long-term liabilities	12,13,14	24,200	22,292
		24,200	22,292
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	14,15	163,162	167,867
		163,162	167,867
TOTAL LIABILITIES		**187,362**	**190,159**

Approved for issue on May 29, 2013 by:



R. Blain Lawson
General Manager and Chief Executive Officer



Roger M. Bissoondatt, CA, CMA
Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

(in $000s)
For the years ended March 31, 2013 and 2012

Year Ended March 31,	Note	2013	2012
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Cash receipts from customers		2,750,341	2,701,717
Cash payments to the Province of British Columbia	9	(921,735)	(908,587)
Cash paid to suppliers and employees		(1,829,533)	(1,759,981)
Cash receipts from other income		12,821	10,501
Interest paid on capital lease and loans		(2)	(16)
CASH FLOWS FROM OPERATING ACTIVITIES		11,892	43,634
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Acquisition of property and equipment	6	(9,891)	(18,619)
Acquisition of intangible assets	7	(525)	(403)
Proceeds from disposal of property and equipment		25	108
CASH FLOWS (USED IN) INVESTING ACTIVITIES		(10,391)	(18,914)
CASH FLOWS (USED IN) FINANCING ACTIVITIES			
Payments on capital leases		(50)	(47)
Payments on tenant improvement loans		(30)	(158)
CASH FLOWS (USED IN) FINANCING ACTIVITIES		(80)	(205)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,421	24,515
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS) - BEGINNING OF YEAR		17,362	(7,153)
CASH AND CASH EQUIVALENTS - END OF YEAR		**18,783**	**17,362**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

1. PURPOSE OF THE BRANCH

The British Columbia Liquor Distribution Branch (the LDB) is one of two branches of the Province of British Columbia (the Province) responsible for the beverage alcohol industry in British Columbia and reports to the Minister of Justice.

The LDB obtains its authority for operation from the British Columbia Liquor Distribution Act (the Act). As stated in Section 2 of the Act, the LDB has the exclusive right to purchase liquor for resale and reuse in the Province in accordance with the provisions of the Importation of Intoxicating Liquors Act (Canada).

The LDB is reported in the public accounts on a modified equity basis, in a manner similar to a commercial Crown corporation.

2. BASIS OF PRESENTATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis. The accounts have been prepared on a going concern basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the LDB's functional currency. All financial information has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the LDB's accounting policies. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In determining and applying accounting policies, judgement is often required where the choice of specific policy, assumption or account estimate to be followed could materially affect the reported results or net position of the LDB, should it later be determined that a different choice would be more appropriate.

Management considers the following to be areas of significant judgement and estimation for the LDB due to greater complexity and/or being particularly subject to the exercise of judgement:

i) Property and equipment

The determination of the useful economic life and residual values of property and equipment is subject to management estimation. The LDB regularly reviews all of its depreciation rates and residual values to take account of any changes in circumstances, and any changes that could affect prospective depreciation charges and asset carrying values.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

ii) Employee Benefits – Retiring Allowances
Employees who are eligible to retire and receive pension benefits under the Public Service Pension Plan are granted full vacation entitlement for the final calendar year of service. The LDB recognizes a liability and an expense for retiring allowances when benefits are earned and not when these benefits are paid. These obligations are valued by independent actuaries.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Foreign currency translation

The LDB in the normal course of business purchases product in foreign currency. Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the date of the statement of financial position.

(b) Financial instruments

Financial assets are recognized when the LDB has rights or other access to economic benefits. Such assets consist of cash or a contractual right to receive cash or another financial asset. The LDB derecognizes a financial asset when the contractual rights to the cash flows from the asset have expired or have been transferred and all the risks and rewards of ownership are substantially transferred.

All of the LDB's financial assets are designated as loans and receivables and deposits. The LDB initially recognizes loans and receivables and deposits on the date that they originate.

Financial liabilities are recognized when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset. Financial liabilities are derecognized when they are extinguished.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the LDB has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The LDB has the following categories of financial assets and financial liabilities:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the LDB provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities of greater than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any provision for impairment. Any resulting income or expense is recognized in the statement of comprehensive income. Loans and receivables include accounts receivable, cash on hand and bank deposits in transit.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

i) Accounts receivable

Accounts receivable are recognized initially at the invoice amount, which approximates the fair value.

A provision for impairment of trade receivables is established when there is objective evidence that the LDB will not be able to collect all amounts due according to the terms of the receivables. The carrying amount of accounts receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. The amount of the provision is the difference between the asset's carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate. Subsequent recoveries of amounts previously written off are credited to other income.

ii) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits in transit, and bank overdrafts. Bank overdrafts are shown as bank indebtedness in current liabilities on the statement of financial position.

Financial liabilities held at amortized cost

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using effective interest method and include accounts payable, tenant improvement loans, and bank indebtedness. Any resulting income or expense is recognized in the statement of comprehensive income.

i) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the payment is due within one year or less and non-current liabilities if the payment is due more than one year from the statement of financial position date.

ii) Bank indebtedness

Bank indebtedness is shown in current liabilities and included within cash and cash equivalents on the statement of cash flows as it forms an integral part of the LDB's cash management.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

(c) Property and equipment

Property and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the LDB and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

i) Construction in process

Construction in process is carried at cost less any impairment loss. Cost includes professional fees, materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When these assets are ready for their intended use, they are transferred into the appropriate category. At this point, depreciation commences on the same basis as the other property and equipment.

ii) Assets held under finance leases

Refer to 3(f).

(d) Intangible Assets

Where computer software is not an integral part of a related item of property and equipment, the software is capitalized as an intangible asset.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring them into use. Direct costs associated with the production of identifiable and unique internally generated software products controlled by the LDB that will generate economic benefits exceeding costs beyond one year are capitalized. Direct costs include software development employment costs including those of contractors used. Where assets are under construction over a period of time, these costs are recorded in a construction in progress account until put into use.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Intangible assets acquired by the LDB have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

(e) Depreciation of non-financial assets

No depreciation is provided on land or assets in the course of construction. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	2.5 - 5% per annum
Leasehold improvements	a minimum of 10% per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease
Furniture, fixtures, vehicles and equipment	10 - 25% per annum
Information systems	25% per annum
Computer software development costs	25% per annum

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each date of the statement of financial position.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive income.

(f) Leases

When assets are financed by leasing agreements that transfer substantially all of the risks and rewards of ownership to the LDB (finance leases), the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables and current payables, as appropriate. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All other leases are operating leases and the costs are recorded on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent-free periods and tenant allowances) is recognized as deferred income and is recognized over the life of the lease.

(g) Inventories

The LDB's inventories are valued at the lower of cost and net realizable value. Inventories are determined on a weighted average cost basis. Cost of inventories comprises all cost of purchase to bring inventories to a LDB distribution centre and includes supplier invoiced value, freight, duties and taxes. Net realizable value represents the estimated selling price for inventories less the costs to sell.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

(h) Impairment of assets

Assets that are subject to depreciation and amortization are reviewed at each statement of financial position date to determine whether there is any indication that assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs), which are based on the LDB's individual stores.

Non-financial assets that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. This reversal would be recognized immediately in the statement of comprehensive income.

(i) Employee benefit plans

The LDB and its employees contribute to the Public Service Pension Plan in accordance with the Public Service Pension Plans Act. Defined contribution plan accounting is applied to the multi-employer defined benefit pension plan because sufficient information is not available to apply defined benefit accounting. Accordingly, contributions are expensed as they become payable. Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. These benefits are accounted for as an expense and a liability in the period incurred.

(j) Provisions

Provisions are recognized if, as a result of a past event, the LDB has a legal or constructive obligation upon which a reliable estimate can be made, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis where the effect is material to the original undiscounted provision. The carrying amount of the provision increases in each period to reflect the passage of time and the unwinding of the discount.

(k) Revenue recognition

Reported revenue represents the fair value of consideration received or receivable in exchange for goods and services provided to third parties in the course of ordinary activities. Revenue is recognized when the risks and rewards of ownership are substantially transferred.

Revenue is stated net of estimated returns and excludes harmonized sales tax, container recycling fees and container deposits.

(l) Other income

Revenue that is ancillary to the sales of beverage alcohol is recognized as other income. Other income includes revenue from beverage container handling fees, border point collections, and customs clearing administrative fees.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

(m) Recent accounting developments

i) New standards, interpretations, and amendments of standards adopted by the LDB

There are no standards, interpretations or amendments of existing standards that were effective for the year ended March 31, 2013 that have had a significant impact on the Branch.

ii) Standards and interpretations issued but not yet effective and not yet adopted by the LDB

The impact on the financial statements has not yet been assessed. The new standards relevant to the LDB are:

Amendment to IAS 1, 'Presentation of financial statements' – becomes mandatory for financial statements beginning July 1, 2012. The main change is a requirement to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

Amendment to IAS 16, 'Property, plant and equipment' – becomes mandatory for financial statements beginning January 1, 2013. It clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.

IFRS 9, 'Financial instruments' – becomes mandatory for financial statements beginning January 1, 2015 and impacts the classification and measurement of financial assets.

IFRS 13, 'Fair value measurement' - becomes mandatory for financial statements beginning January 1, 2013. It aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

4. SALES

Total sales reported include sales to retail customers, licensed establishments, licensee retail stores and agency stores. These amounts do not include subsequent resale by licensed establishments, licensee retail stores and agency stores.

	2013	2012
Retail customers	1,195,825	1,188,902
Licensee retail stores	1,026,630	993,861
Licensed establishments	468,236	475,046
Agency stores	259,726	232,060
	$ 2,950,417	**$ 2,889,869**

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

5. OPERATING EXPENSES

The LDB's operating expenses are comprised of:

	2013	2012
Administration costs	279,422	275,681
Transportation	12,122	10,777
Marketing	4,687	4,533
	$ 296,231	**$ 290,991**

	2013	2012
Salaries, wages and benefits	165,264	164,314
Rents	37,949	37,026
Bank charges	23,264	21,927
Depreciation and amortization	16,173	14,077
Other administrative expenses	15,780	15,962
Transportation	12,122	10,777
Repairs and maintenance	7,218	7,524
Data processing	6,132	6,663
Professional services	4,712	5,023
Marketing	4,687	4,533
Loss prevention	2,930	3,165
	$ 296,231	**$ 290,991**

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

6. PROPERTY AND EQUIPMENT

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture, fixtures, vehicles & equipment	Held assets under finance leases	Information systems	Construction in process	Total
March 31, 2012								
Opening net book value	1,068	2,149	28,409	8,910	77	9,811	7,202	57,626
Additions	5	1,107	20	2,480	-	1,863	13,144	18,619
Transfers	-	-	6,161	330	-	95	(6,586)	-
Disposals (cost)	-	(4)	-	(791)	-	(553)	-	(1,348)
Disposals (accumulated depreciation)	-	4	-	791	-	553	-	1,348
Depreciation charge	(1)	(138)	(4,745)	(3,758)	(65)	(4,554)	-	(13,261)
Closing net book value	**1,072**	**3,118**	**29,845**	**7,962**	**12**	**7,215**	**13,760**	**62,984**
March 31, 2012								
Cost	1,073	21,443	59,473	31,942	3,900	77,086	13,760	208,677
Accumulated depreciation	(1)	(18,325)	(29,628)	(23,980)	(3,888)	(69,871)	-	(145,693)
Net book value	**1,072**	**3,118**	**29,845**	**7,962**	**12**	**7,215**	**13,760**	**62,984**
March 31, 2013								
Opening net book value	1,072	3,118	29,845	7,962	12	7,215	13,760	62,984
Assets Reclassified (note 7)	-	-	-	-	-	-	(12,730)	(12,730)
Additions	-	15	10	1,877	-	1,214	6,775	9,891
Transfers	-	-	5,774	569	-	-	(6,343)	-
Disposals (cost)	-	-	(4,467)	(506)	-	(457)	-	(5,430)
Disposals (accumulated depreciation)	-	-	4,111	506	-	457	-	5,074
Depreciation charge	-	(181)	(5,481)	(3,498)	(12)	(3,007)	-	(12,179)
Closing net book value	**1,072**	**2,952**	**29,792**	**6,910**	**-**	**5,422**	**1,462**	**47,610**
March 31, 2013								
Cost	1,073	21,458	60,790	33,882	3,900	77,843	1,462	200,408
Accumulated depreciation	(1)	(18,506)	(30,998)	(26,972)	(3,900)	(72,421)	-	(152,798)
Net book value	**1,072**	**2,952**	**29,792**	**6,910**	**-**	**5,422**	**1,462**	**47,610**

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

7. INTANGIBLE ASSETS

	Intangible assets	Construction in process	Total
March 31, 2012			
Opening net book value	1,950	934	2,884
Additions	403	-	403
Amortization charge	(816)	-	(816)
Closing net book value	**1,537**	**934**	**2,471**
March 31, 2012			
Cost	4,594	934	5,528
Accumulated amortization	(3,057)	-	(3,057)
Net book value	**1,537**	**934**	**2,471**
March 31, 2013			
Opening net book value	1,537	934	2,471
Assets reclassified (note 6)	-	12,730	12,730
Additions	340	185	525
Transfers	13,295	(13,295)	-
Amortization charge	(3,994)	-	(3,994)
Closing net book value	**11,178**	**554**	**11,732**
March 31, 2013			
Cost	18,229	554	18,783
Accumulated amortization	(7,051)	-	(7,051)
Net book value	**11,178**	**554**	**11,732**

8. PREPAID EXPENSES

Prepaid expenses include insurance, software maintenance, and wine futures. The LDB, as part of its ongoing business practices, purchases select products up to three years in advance to secure future delivery of these products. These products are normally purchased in foreign currency and are translated to Canadian dollars at the spot exchange rate in effect at the transaction date. At March 31, 2013, the LDB has recorded $8.2 million (2012 - $9.1 million) of prepaid wine futures for delivery in fiscal years 2014 and 2015.

		2013	2012
Wine futures		8,187	9,146
Other prepaids		2,092	1,899
		10,279	11,045
	Long-term portion	(2,709)	(8,697)
	Current portion	$ 7,570	$ 2,348

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

9. DUE TO/FROM PROVINCE OF BRITISH COLUMBIA

The LDB uses the Province's financial and banking systems to process and record its transactions. The amount due from the Province of British Columbia represents the accumulated net financial transactions with the Province. During the year, the total receipts from the Province were $2.19 billion (2012 - $2.15 billion) and the total payments to the Province were $3.11 billion (2012 - $3.06 billion).

10. INVENTORIES

	2013	2012
Store inventory	55,888	53,322
Warehouse inventory	32,667	28,493
	$ 88,555	**$ 81,815**

During the year inventories that were recognized as cost of sales amounted to $1.5 billion (2012 - $1.5 billion).

11. ACCOUNTS RECEIVABLE

	2013	2012
Trade accounts receivable and other items	10,100	6,230
Provision for doubtful accounts	(773)	(648)
Accounts receivable and other items - net	**$ 9,327**	**$ 5,582**

Receivables past due but not impaired are $672 thousand (2012 - $276 thousand). During the year the LDB expensed $127 thousand (2012 - $61 thousand) in bad debts expense.

12. OTHER LONG-TERM LIABILITIES

The LDB's other long-term liabilities are comprised of:

	2013	2012
Retirement benefit obligation (note 13(b))	13,340	12,961
WorkSafe BC claims accrual (note 13(c))	7,600	5,600
Long-term portion of deferred lease liabilities (note 14)	2,390	2,639
Long-term portion of obligation under capital lease	30	79
Other	840	1,013
	$ 24,200	**$ 22,292**

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
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13. EMPLOYEE'S BENEFIT PLANS AND OTHER EMPLOYMENT LIABILITIES

a) Public Service Pension Plan

The LDB and its employees contribute to the Public Service Pension Plan (the Plan), a jointly trusteed pension plan. The Public Service Pension Board of Trustees, representing Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The Plan has approximately 56,000 active Plan members and 39,000 retired Plan members.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The actuarial valuation done for March 31, 2011 indicated the Plan had a deficit of $275 million for basic pension benefits. As a result, effective April 1, 2012, employee and employer contributions to the basic account each increased by 0.4% of salaries. Also effective April 1, 2012, in order to remain compliant with the Income Tax Act and to strengthen inflation protection, new contribution rates for the inflation adjustment account (IAA) was implemented. The employee contribution rate to the IAA was reduced by 0.25% of salary while the employer contribution rate increased by 0.25% of salary. The net impact of these two rate changes was an increase to the employee contribution rate of 0.15% and an increase to employer contribution rates of 0.65%.

The total amount paid into this pension plan by the LDB for the year ended March 31, 2013 was $11.1 million for employer contributions (2012 - $11.0 million), which was recorded in administration expenses.

The next valuation of the Plan will be as at March 31, 2014 with results available in early 2015. Defined contribution pension plan accounting is applied to the Plan as there is no consistent and reliable basis for allocating the obligation, Plan assets and cost to individual entities participating in the Plan.

b) Retirement benefits

Employees are entitled to specific non-pension retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to $13.3 million (2012 - $13.0 million), which represents future employees' retirement benefits outside of the Plan and is included in other long-term liabilities. The amount expensed in the current year was $379 thousand (2012 - $2.9 million).

c) WorkSafe BC outstanding claims

The LDB self-funds worker's compensation claims. The LDB recognizes a liability and an expense for claims that are in progress at the year-end. This liability of $7.6 million (2012 - $5.6 million) is valued by independent actuaries.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
(Tabular amounts in $000s)

14. DEFERRED LEASE LIABILITIES

	2013	2012
Deferred rent	2,564	2,698
Deferred tenant allowances	263	348
Deferred tenant improvement loans	31	62
	2,858	3,108
Less current portion	(468)	(469)
Long-term portion	**$ 2,390**	**$ 2,639**

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Trade payables	79,217	88,086
Accrued liabilities	80,630	76,625
Other payables	2,798	2,637
Current portion of obligation under finance lease	49	50
Current portion of deferred lease liabilities (note 14)	468	469
	$ 163,162	**$ 167,867**

Contractual commitments

The LDB leases various stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The minimum lease expenditures charged to the statement of comprehensive income during the year is $28.5 million (2012 - $28.2 million). These expenditures include property taxes and common area costs.

Future commitments for operating leases for LDB premises are as follows:

	2013	2012
Total future minimum rental payments under non-cancellable operating leases expiring:		
Not later than one year	28,249	27,857
Later than one year and not later than five years	74,659	78,472
Later than five years and not later than 25 years	17,684	20,841
	$ 120,592	**$ 127,170**

BC Liquor Stores fees

For the year ended March 31, 2013, the LDB paid the Liquor Control and Licensing Branch $420,300 (2012 - $420,100) for license fees. The fee is based on the sales in each government liquor store.

Other contractual commitments have been disclosed elsewhere in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
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16. CONTINGENT ITEMS

The LDB is the sole importer of beverage alcohol in the Province. The LDB, as the importer of record, has the future liability for customs duty on import beer of $0.5 million (2012 - $0.6 million) based upon the value of the agents' inventories at March 31, 2013.

The LDB is the defendant in legal actions and it is not expected that the ultimate outcome of these claims will have a material effect on the financial position of the LDB.

17. CAPITAL MANAGEMENT

The LDB does not retain any equity. Net income is returned to the Province. The LDB has no externally imposed capital requirements.

18. RELATED PARTY TRANSACTIONS

Province of British Columbia

The LDB is related through common ownership to all provincial ministries, agencies and Crown corporations. Transactions with these entities are generally considered to be in the normal course of operations and are recorded at the exchange amount, unless disclosed separately in these financial statements.

Other related party transactions have been disclosed elsewhere in the notes to the financial statements.

Key management compensation

The LDB's executive management committee is defined as key management. At March 31, 2013, there were 9 (2012 - 8) members on the executive committee.

	2013	2012
Salaries and short-term benefits	1,078	1,141
Post-employment benefits	80	116
Fees for services	138	138
	$ 1,296	**$ 1,395**

During the year, two members (2012 – one) of the executive management committee retired and a total of $39 thousand (2012 - $28 thousand) in retiring allowances was paid during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended March 31, 2013 and 2012
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19. FINANCIAL RISK FACTORS

The LDB is exposed to the following risks related to its financial assets and liabilities:

- Credit Risk
- Liquidity Risk
- Market Risk

It is management's opinion that the LDB is not exposed to significant market, credit or liquidity risk arising from these instruments.

Credit risk

Credit risk is the risk of financial loss to the LDB due to customer inability to pay for product or a counterparty to a financial instrument failing to meet its contractual obligations. The LDB's exposure to credit risk is related only to the value of accounts receivable in its normal course of business, and the LDB manages this risk by minimizing the amount of transactions which require recovery. The LDB continually monitors and manages the collection of receivables. See accounts receivable note 3(b) for further disclosure on credit risk.

Liquidity risk

Liquidity risk is the risk that the LDB will be unable to meet its financial obligations as they become due.

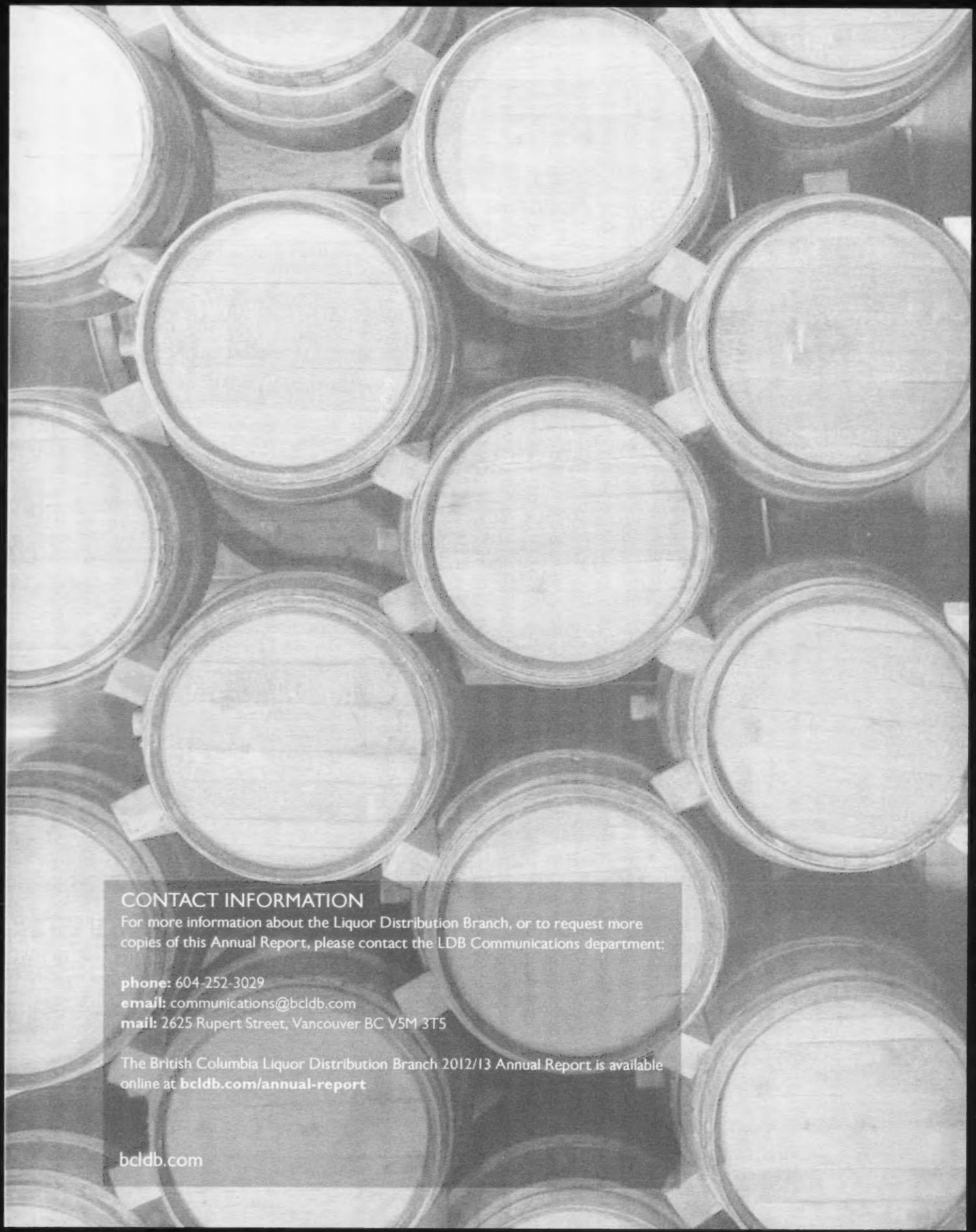
The LDB manages liquidity risk primarily by monitoring cash flows and by maintaining the ability to borrow funds through the Province.

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the LDB's income or the value of its financial instruments.

While the majority of the LDB's transactions are in Canadian dollars, the LDB also transacts in Euros and US dollars. These transactions are in the normal course of business. The LDB's exposure to foreign currency risk could impact the accounts payable of the LDB. A 10 per cent movement in the exchange rate between the Canadian dollar and the other currencies listed above would not have a material impact on the LDB.

The LDB currently does not hold any debt or equity securities and as such is not exposed to interest rate risk. As the LDB has no significant interest-bearing assets and liabilities, the LDB's income and operating cash flows are substantially independent of changes in market interest rates.



CONTACT INFORMATION

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The British Columbia Liquor Distribution Branch 2012/13 Annual Report is available online at **bcldb.com/annual-report**

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